

Message Text

CONFIDENTIAL

PAGE 01 TOKYO 13285 01 OF 02 300912Z
ACTION EA-12

INFO OCT-01 EUR-12 IO-13 ISO-00 CIAE-00 DODE-00
NSAE-00 NSCE-00 SSO-00 USIE-00 INRE-00 FEA-01
AGRE-00 CEA-01 COME-00 EB-08 FRB-03 H-01 INR-07
INT-05 L-03 LAB-04 PA-01 AID-05 SS-15 STR-04
ITC-01 TRSE-00 PRS-01 SP-02 OMB-01 /101 W
-----110084 300921Z /15

O R 300838Z AUG 77
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC IMMEDIATE 640
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

C O N F I D E N T I A L SECTION 01 OF 02 TOKYO 13285/01

USEEC

USMTN

E.O. 11652: GDS
TAGS: EGEN, JA
SUBJECT: UPCOMING U.S.-JAPAN ECONOMIC CONSULTATIONS: OBJECTIVES AND
BACKGROUND

REF: STATE 201017

1. SUMMARY: THE COMING SERIES OF HIGH-LEVEL TALKS WITH
JAPAN WILL PROVIDE A MAJOR OPPORTUNITY TO ENCOURAGE THE JAPANESE
TO TAKE A BROADER AND MORE ACTIVE APPROACH TO GLOBAL
ECONOMIC PROBLEMS. THE WORLD HAS EVOLVED FROM THE CON-
DITIONS IN 1971-72 WHEN SO MUCH EFFORT WAS GIVEN TO BILATER-
AL SOLUTIONS TO OUR PROBLEMS WITH JAPAN. THE EMBASSY
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 TOKYO 13285 01 OF 02 300912Z

SUGGESTS SEVERAL THEMES TO EMPHASIZE IN A GLOBAL CONTEXT
DURING THE COMING MONTH OF TALKS. END SUMMARY.

2. DURING SEPTEMBER THE VISITS TO TOKYO OF AMBASSADOR
WOLFF, AMBASSADOR STRAUSS (NOW POSTPONED), UNDERSECRETARY COOPER,
AND COMMERCE SECRETARY KREPS CONSTITUTE A HEAVY DOSE OF
ATTENTION TO JAPAN AND ITS GLOBAL ECONOMIC ROLE. THESE

VISITS WILL DRAW DAILY FRONT PAGE COVERAGE IN THE TOKYO PRESS. THE PURPOSE AND OBJECTIVES OF EACH VISIT, THOUGH DIFFERENT, ARE RELATED. THEY ARE A MAJOR OPPORTUNITY TO ENCOURAGE USEFUL CHANGE. WITHIN THE EMBASSY WE HAVE BEEN CONSIDERING THE QUESTION OF WHERE WE WANT ALL THIS TO COME OUT AND HOW WE GET THERE.

3. WE STRONGLY APPROVE THE CONTINUING THEME REFLECTED IN WASHINGTON DOCUMENTS THAT WE ARE TREATING A GLOBAL, NOT A BILATERAL QUESTION. JAPAN'S INTERNATIONAL ECONOMIC ROLE AND HOW JAPAN CONDUCTS ITS DOMESTIC ECONOMIC POLICIES ARE OF MAJOR AND INCREASING IMPORTANCE. THIS FACT OF LIFE IS RECOGNIZED BY SOME LEADERS IN JAPAN, BUT THE PERCEPTION OF IT IS NOT WIDELY SPREAD AND THE IMPLICATIONS ARE EVEN LESS UNDERSTOOD. WITHOUT APPROACHING THE JAPANESE IN A DEMEANING WAY WE SHOULD SEEK TO IMPRESS UPON LARGER NUMBERS OF THEM

THAT THIS IS A NEW AND SERIOUS ROLE IMPLYING NEW RESPONSIBILITIES.

4. WE HAVE MOVED A LONG WAY FROM THE PERIOD OF 1971-72 WHEN SO MUCH ATTENTION WAS GIVEN TO PRIMARILY BILATERAL ECONOMIC ISSUES. CIRCUMSTANCES TODAY ARE FUNDAMENTALLY DIFFERENT. THE EC TODAY RIGHTLY LOOMS MUCH LARGER IN JAPANESE THINKING. THE RULES OF

CONFIDENTIAL

PAGE 03 TOKYO 13285 01 OF 02 300912Z

INTERNATIONAL TRADE, THE VOLUME OF THAT TRADE, AND THE INTERNATIONAL PAYMENTS SYSTEM HAVE EVOLVED. THE TRULY GLOBAL PROBLEMS WE FACE TODAY MUST BE SEEN BY JAPAN IN THAT LIGHT. WE ARE NOT TREATING JAPAN MERELY AS A MARKET FOR A FEW EXPORTS OR AN ECONOMIC RIVAL OF AMERICAN BUSINESS, AND WE DO NOT WANT JAPAN TO BEHAVE THAT WAY.

5. IN SIMPLE TERMS OUR OBJECTIVE IS A MAJOR SHIFT IN JAPAN'S GLOBAL CURRENT ACCOUNT BALANCE. EARLY THIS YEAR, WHEN THE GOJ PROJECTED A CURRENT ACCOUNT DEFICIT OF \$700 MILLION FOR JFY-1977, JAPANESE OFFICIALS NEVER SUSPECTED THAT WE WOULD PUT SO MUCH EMPHASIS ON THAT PROJECTED DEFICIT. THEY WERE ALSO SURPRISED WHEN THEIR TRADE PERFORMANCE DURING THE LAST SIX MONTHS WAS SO STRONG THAT THEY NOW SEEM HEADED FOR A CURRENT ACCOUNT SURPLUS OF \$8-10 BILLION. THEY WILL PROBABLY CONCEDE THAT THAT IS A PROBLEM, BUT SAY THAT THERE IS LITTLE THAT THEY CAN DO. THEN THEY WILL ASK, PERHAPS IN A TONE OF DESPAIR, WHAT AMERICANS THINK THEY SHOULD DO. WE BELIEVE THAT WE SHOULD TAKE CARE NOT TO LET OUR TALKS WITH THE

JAPANESE BOG DOWN OVER PARTICULAR PROBLEMS, AND WE SHOULD NOT WEAKEN OUR MESSAGE BY EMPHASIZING TOO MUCH SALES TO JAPAN OF PARTICULAR GOODS. WE OFFER THE FOLLOWING AS A MENTAL CHECK LIST OF THE VARIOUS THEMES WE MIGHT USE IN RESPONSE. UNDER EACH THE SPECIFIC ACTIONS MENTIONED ARE ONLY ILLUSTRATIONS.

6. JAPANESE MACRO-ECONOMIC POLICY:

WE HAVE TAKEN IT AS AN ARTICLE OF FAITH THAT AUGMENTED INTERNAL DEMAND WOULD GO FAR TO DIVERT EXPORT PRESSURE AND NARROW THE PAYMENT SURPLUS. IDEALLY WE WOULD LIKE TO SEE INCREASED INVESTMENT AND CONSUMER DEMAND; AS A PRACTICAL MATTER INCREASED GOVERNMENT SPENDING IS THE ONLY TOOL AVAILABLE FOR EARLY RESULTS. A SUB-CONFIDENTIAL

CONFIDENTIAL

PAGE 04 TOKYO 13285 01 OF 02 300912Z

STANTIAL SUPPLEMENTAL BUDGET THIS FALL WILL HELP, ALTHOUGH THE PROJECTED SUPPLEMENTAL OF Y1 TRILLION OR SOMEWHAT MORE IS NOT AS LARGE AS WE WOULD LIKE. HOWEVER, THE PRIME MINISTER'S DECISION WILL HAVE BEEN ANNOUNCED BY THE TIME OF THE SEPTEMBER MEETINGS; AND AS A PRACTICAL MATTER OUR COMMENTS WILL HAVE TO BE DIRECTED AT SOME FURTHER FINE TUNING LATER THIS YEAR OR MORE LIKELY AT PLANNING FOR THE FY-1978 BUDGET. CONTINUING GROWTH AND A STRONG GOVERNMENT COMMITMENT TO EXPANSION WOULD ULTIMATELY REBUILD INVESTMENT SPENDING. WE SHOULD ENCOURAGE THE JAPANESE

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 TOKYO 13285 02 OF 02 300921Z

ACTION EA-12

INFO OCT-01 EUR-12 IO-13 ISO-00 CIAE-00 DODE-00
NSAE-00 NSCE-00 SSO-00 USIE-00 INRE-00 FEA-01
AGRE-00 CEA-01 COME-00 EB-08 FRB-03 H-01 INR-07
INT-05 L-03 LAB-04 PA-01 AID-05 SS-15 STR-04
ITC-01 TRSE-00 PRS-01 SP-02 OMB-01 /101 W
-----110186 300926Z /15

O R 300838Z AUG 77

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC IMMEDIATE 641

INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

C O N F I D E N T I A L SECTION 02 OF 02 TOKYO 13285/02

TO SPECULATE ON THE FOREIGN TRADE AND PAYMENTS IMPLI-
CATIONS OF VARIOUS STIMULUS PACKAGES.

7. INTERNATIONAL FINANCIAL POLICIES:

IF DISCUSSION OF EXCHANGE RATE INTERVENTION POLICY
IS TO BE ANYTHING BUT YET ANOTHER RESTATEMENT OF THE
PRINCIPLES OF RAMBOUILLET, IT WILL MOST LIKELY COME
FROM OUR CONTINUING TO ASK ABOUT THEIR WILLINGNESYK
TO SELL INTEREST EARNINGS ON THEIR FOREIGN EXCHANGE
RESERVES BACK INTO THE FOREIGN EXCHANGE MARKET.
ONE POSSIBLE USEFUL STEP IN THIS DIRECTIONWILL BE
TO COME TO THE SUBCABINET TALKS, WHICH HAVE EXCHANGE
RATE POLICY ON THE AGEND, ARMED WITH EVIDENCE TO
CONVINCE THE SKEPTICAL JAPANESE THAT OTHER COUNTRIES,
PARTICULARLY GERMANY, TO SELL INTEREST EARNINGS
BACK IN THE MARKET.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 TOKYO 13285 02 OF 02 300921Z

8. THE DISCUSSION OF CAPITAL ACCOUNT POLICIES IS
APT TO RAISE DIFFICULT PHILOSOPHICAL QUESTIONS.
PERHAPS WITHOUT HARBORING EXAGGERATED HOPES OF
SUCCESS, WE COULD URGE THE JAPANESE TO SEEK TO RELY
MORE HEAVILY ON FISCAL POLICY RATHER THAN MONETARY
POLICY IN SEEKING TO STIMULATE THE ECONOMY, TO REDUCE
THE RISK OF INDUCING CAPITAL OUTFLOWSWHICH COULD
CREATE PRESSURES FOR YEN DEPRECIATION. WE WILL ALSO
WANT TO TRY TO REACH A CLEARER UNDERSTANDING WITH
THEM OF THE DEGREE TO WHICH LONG-TERM CAPITAL OUTFLOWS
CAN APPROPRIATELY BE ENCOURAGED TO FINANCE THE CURRENT
ACCOUNT SURPLUS.

9. AS PART OF A MORE GENERAL EFFORT TO GET THE
JAPANESE TO RETHINK THEIR EXPORT PROMOTION EFFORTS, WE
WILL WANT TO GET THEIR AGREEMENT ON THE NEED TO MOVE
AHEAD WITH IMPORTANT IMPROVEMENTS OF THE EXPORT
CREDIT CONSENSUS.

10. WHEN THE DISCUSSION TURNS TO MULTILATERAL FINAN-
CIAL POLICIES, WE WILL WANT TO EXPRESS APPRECIATION
FOR THEIR EFFORTS ON BEHALF OF PORTUGAL, AND FOR

GOING ALONG WITH THE WITTEVEEN FACILITY AFTER THEY
HAD THEIR MONEY ON OECD FINANCIAL SUPPORT FUND.

11. MULTILATERAL TRADE:

THE MTN AT GENEVA PROVIDES A CONTEXT IN WHICH JAPAN
CAN AFFORD MAJOR RECIPROCAL CONCESSIONS WHICH WOULD
SUPPORT MAJOR RECIPROCAL CONCESSIONS WHICH WOULD
SUPPORT BROAD NATIONAL ECONOMIC GOALS. MAJOR
TARIFF CUTS WOULD HELP, ACROSS THE BOARD OR PARTICULARLY ON PRODUCTS OF INTEREST TO THE U.S. SUCH AS
COMPUTER PERIPHERALS AND COLOR FILM WHICH ARE SUBJECT
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 TOKYO 13285 02 OF 02 300921Z

TO RELATIVELY HIGH DUTIES. THERE HAVE BEEN RUMORS OF
UNILATERAL CUTS IN SOME JAPANESE DUTIES. SUCH REDUCTIONS
COULD BE HELPFUL SO LONG AS THEY DO NOT BECOME AN
EXCUSE FOR INACTION IN THE MTN. NON-TARIFF BARRIERS
ARE EVEN MORE IMPORTANT. WE SEEK ELIMINATION ON A
GLOBAL BASIS OF QUOTAS ON AGRICULTURAL AND MARINE
PRODUCTS. JAPAN SHOULD ALSO SUPPORT LIBERALIZATION
OF GOVERNMENT PROCUREMENT AND RATIONALIZATION OF INDUSTRIAL STANDARDS. AT THE END OF THE DISCUSSIONS WE
SHOULD HOPE TO BE ABLE TO MAKE OPTIMISTIC PROJECTIONS
FOR THE FUTURE ALONG THE LINES OF AMB. STRAUSS' STATEMENT AFTER HIS MEETINGS WITH EC.

12. JAPANESE TRADE POLICIES:

IN JAPAN THERE IS A "MIND-SET" WHICH RESISTS IMPORTS.
GOVERNMENT PROCUREMENT RULES AND PRACTICES, INDUSTRIAL
STANDARDS, AND A LONG-STANDING PREFERENCE AMONG PROCUREMENT OFFICERS FOR HOME-GROWN PRODUCTS SEEM LIKE
IMPENETRABLE BARRIERS. WITHOUT DENYING THAT JAPAN
FREELY IMPORTS SOME AGRICULTURAL COMMODITIES AND HAS
EASED MANY RESTRICTIONS IN THE PAST, A MORE GENERAL
LIBERALIZATION, ESPECIALLY ON INDUSTRIAL PRODUCTS, IS
NEEDED. PART OF JAPAN'S MIND-SET IS REFLECTED IN
CUMBERSOME JAPANESE CUSTOMS PROCEDURES. OTHER COUNTRIES
ALSO HAVE STRICT CUSTOMS INSPECTIONS, BUT
THE COMBINATION OF LANGUAGE PROBLEMS AND COMPLICATED
PROCEDURES WITHOUT APPARENT PURPOSE IS ESPECIALLY
TROUBLESOME TO WOULD-BE EXPORTERS TO JAPAN.

13. WE SHOULD ALSO ASK THE JAPANESE TO UNDERTAKE A
REVIEW OF THEIR VARIOUS EXPORT PROMOTION POLICIES.
THERE IS AMPLE EVIDENCE OF THE COMPETITIVENESS OF
A BROAD RANGE OF JAPANESE EXPORTS, AND THEY SHOULD
BE ENCOURAGED TO EXAMINE WHETHER SOME OF THESE PROBLEMS COULD NOT BE BLUNTED BY REDUCING EXPORT
PROMOTION MEASURES.
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 TOKYO 13285 02 OF 02 300921Z

14. FOREIGN ASSISTANCE:

PRIME MINISTER FUKUDA'S CONSULTATIONS WITH THE ASEAN COUNTRIES IN AUGUST SEEMED TO PRESAGE EXPANDED AID FROM JAPAN. THERE WOULD BE MANY BENEFITS IF JAPAN WOULD SIGNIFICANTLY INCREASE THE VOLUME AND IMPROVE THE TERMS OF FOREIGN ASSISTANCE. SUCH AID SHOULD BE UNTIED TO ALLOW FOR WORLDWIDE PROCUREMENT.

15. FOLLOW-UP:

ASSUMING THAT GOALS CAN BE ESTABLISHED FOR FUTURE PERFORMANCE, AGREEMENT FOR PERIODIC REVIEWS AT A LOWER LEVEL WOULD BE USEFUL, WITH THE WAY LEFT OPEN FOR ANOTHER SUBCABINET MEETING NEXT YEAR.

MANSFIELD

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, MEETINGS, REGIONAL ORGANIZATIONS, ECONOMIC AGREEMENTS
Control Number: n/a
Copy: SINGLE
Sent Date: 30-Aug-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977TOKYO13285
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770312-1234
Format: TEL
From: TOKYO USEEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t1977086/aaaaaerk.tel
Line Count: 298
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 3a14635a-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 77 STATE 201017
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 17-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1595908
Secure: OPEN
Status: NATIVE
Subject: UPCOMING U.S.-JAPAN ECONOMIC CONSULTATIONS: OBJECTIVES AND BACKGROUND
TAGS: EGEN, JA
To: STATE
Type: TE
vdkgvkey: odbc://SAS/SAS.dbo.SAS_Docs/3a14635a-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009